

Deductions and Net Pay

2.4



Troy is a graduate of the College of the North Atlantic, from which he received his diploma in graphic design.

MATH ON THE JOB

Brochures, packaging, and calendars are some of the items Troy Templeman designs. He is a self-employed graphic designer who operates his own studio, Troy Templeman Designs. Troy grew up in Logy Bay, Newfoundland, and graduated from Prince of Wales Collegiate in St. John's, NL. In 2000, he obtained his diploma in graphic design.

"As a graphic designer, I use math in my job on a daily basis," Troy says. For example, he uses geometry and geometric shapes in his designs. As well, says Troy, "I use a lot of addition, subtraction, multiplication, and division for pricing, invoices, and measurements."

Self-employed people like Troy often deduct and save a certain percentage of each job they are paid for. This money can go towards paying taxes or medical or dental expenses. Troy spends 17 hours working on a brochure and is paid \$850.00 for the job. He wants to deduct and save 30% of the amount he is paid. What is Troy's hourly wage after this deduction?

Terms:

CPP (Canadian Pension Plan):

- All workers over the age of 18 pay 4.95% of their earnings over \$3500.00
- You will receive this money back when you turn 65.
- do not contribute to CPP on earnings over \$44300.00 (2011)
- maximum contributions for 2011 is \$2217.60

EI (Employment Insurance):

- workers pay 1.78%/1.83% of their earnings toward this program that they can access if they lose their job and can't find work elsewhere
- the maximum amount paid to EI for 2011 is \$786.76 or 1.78% of \$44200.00
- your employer pays 1.4 times the amount you do

Terms continued:

Pension Plans:

- a retirement savings plan that some organizations offer.
- the employee pays a percent of their pay into this fund and the employer contributes an equal amount

Benefits:

- dental/health plan companies often help offset some of the costs for their employees

Provincial/Federal Income Taxes:

- amount varies from province to province

Taxable Income:

- the amount of money taxes are paid on, after pension and such things as union dues are subtracted

Income tax

- based on gross pay and how many dependents one has
- everyone is assigned a TD1 claim code that will indicate the percent of tax they must pay
- higher incomes pay a higher percent
- more dependents lowers the percent
- there are both Federal and Provincial taxes that must be paid

the website <http://www.cra-arc.gc.ca> will provide the tax tables

select payroll under the business heading
then select payroll deductions calculator




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[Save time-go online!](#) - Online services make it faster, easier, and more secure to handle your business tax matters.

A national pilot project began in June 2010 that involves sending pre-recorded phone messages to remind new GST/HST registrants and new employers of their first filing and remitting deadlines. For more information see [Automated phone message to new GST/HST registrants and new employers](#).

Topics

Payroll Deduct, remit and report CPP, EI, and income tax. Complete and file information returns. Payroll Deductions Online Calculator (PDOC).	My Business Account Convenient and secure online access to your personalized business account information and services.
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Payroll

Important notice
[Changes to the rules for deducting Canada Pension Plan \(CPP\) contributions.](#)

As an employer, trustee, or payer, you are responsible for deducting Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums and income tax from remuneration or other types of income you pay, remitting them to us and reporting them on the applicable slips.

To get quick and easy access to new payroll deductions tables and other recently announced tax information, you can subscribe, **free of charge**, to one or more of these [electronic mailing lists](#).

Search payroll topics alphabetically:

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Topics

[Payroll Deductions Online Calculator \(PDOC\), payroll tables, TDIs, and more](#)
Access the PDOC, consult or download payroll deductions tables, calculation formulas,

EXPLORE THE MATH

As you learned earlier, the total amount of money a person earns at his or her job is called gross pay. Working people are not usually paid their gross pay, however. Instead, they take home their **net pay**. Net pay refers to the amount left after certain deductions have been made by an employer.

Do you think deductions are the same for everyone? Why or why not?

The federal and provincial deductions on the pay statement are income tax payments. The amount of income tax you pay varies according to your personal circumstances and the province/territory in which you live.

When you begin a new job, your employer requires you to complete a TD1 form (Personal Tax Credits Return) to determine the amount of income tax you should pay. From your TD1 exemption claims, you determine your claim code, which your employer uses to calculate your tax deductions. Many people are only able to claim the basic personal exemption, which is TD1 claim code 1.

In addition to paying taxes, many people pay amounts from their gross pay for a wide range of **benefits** and programs, such as dental plans and savings plans.

When all deductions have been made, the amount remaining—the net pay—is paid to the employee.

Company:	Pay Begin Date: 09/08/2011	Net Pay:
	Pay End Date: 15/08/2011	Cheque Date: 16/08/2011

General		Taxes Data	
Employee ID:	Job Title: Appliance Repair Apprentice	Description	Federal
Address: 123 Main Street St. John, NB	Pay Rate: \$650.00/wk Annual: \$33 800.00	Claim Code	1

Hours and Earnings			Before-Tax Deductions		Taxes	
Description	Current		Description	Amt.	Description	Amt.
	Rate	Gross Earnings				
Regular	\$650.00/wk	\$650.00	Union Dues	\$14.10	Federal	\$53.10
			Pension	\$20.50	Provincial	\$42.00
			Total	\$34.60	CPP	\$28.43
					EI	\$11.25
					Total	\$134.78

You have a 16-week contract as a lift operator at Marble Mountain in Newfoundland, and you will be working between 12 and 20 hours a week. Your employer offers you a choice in how you are paid: a straight wage of \$12.50/h or \$10.50/h plus a weekday season pass that has a value of \$679.00. Which one would you choose? What factors would you consider in your choice?

Example 1

You need to calculate the Canada Pension Plan deduction for Amanda, whose pay statement is shown here. In 2011, the CPP contribution rate was 4.95% of any gross earnings above \$3500.00.

Employee Name: Amanda					
Company:		Pay Begin Date: 03/08/2011		Net Pay:	
		Pay End Date: 03/15/2011		Cheque Date:	
General				Taxes Data	
Employee ID:		Job Title:		Description	Federal
Address: 123 Main St. Dartmouth, NS		Pay Rate: \$500.00/wk Annual: \$26 000.00		Claim Code	1
Hours and Earnings			Before-Tax Deductions		Taxes
	Current		Description	Amt.	Description
Description	Rate	Gross Earnings	Union Dues		Federal
			Pension		Provincial
Regular	\$500.00/wk	\$500.00	Total		CPP
					EI
					Total

SOLUTION

First find the basic pay-period exemption that applies in this case.

$$\$3500.00 \div 52 \text{ weeks} = \$67.31$$

$$\$500.00 - \$67.31 = \$432.69$$

Subtract the basic exemption from the gross pay.

$$\$432.69 \times 0.0495 = \$21.42$$

Multiply by the CPP contribution rate.

The CPP deduction is \$21.42.

Example 2

Referring to Amanda's pay statement on p. 81, calculate the Employment Insurance premium that will be deducted from her weekly pay. In 2011, the EI premium rate was 1.73% of gross earnings.

SOLUTION

$\$500.00 \times 0.0173 = \8.65 Multiply the insurable earnings by the EI premium rate.

The EI deduction will be \$8.65.

Example 3

- a) Calculate the amount of income tax to deduct from Amanda's paycheque. Her TD1 claim code is 1, and she lives in Nova Scotia.
- b) Calculate her net pay.
- c) Fill in all the deductions that will be entered on her pay statement.

SOLUTION

- a) First, find the online Payroll Deductions Tables for your province or territory on the Canada Revenue Agency website. In this example, we use the Nova Scotia Payroll Deduction Tables effective January 1, 2011.

- b) Look up two amounts in the tables, a federal amount and a provincial amount. Use the amount (\$500.00), the pay period (weekly), and the TD1 claim code (1) to locate the amount of tax to deduct.

Federal tax payable is \$37.15.

Provincial tax payable is \$27.20.

Subtract CPP, EI, and federal and provincial taxes from the gross wages.

$$\$500.00 - \$21.42 - \$8.90 - \$37.15 - \$27.20 = \$405.30$$

Amanda's net pay will be \$405.33.

c)

Employee Name: Amanda		
Company:	Pay Begin Date: 03/08/2011	Net Pay: \$405.30
	Pay End Date: 03/15/2011	Cheque Date: 08/23/2011

General		Taxes Data	
Employee ID:		Description	Federal
Job Title:		Claim Code	1
Address: 123 Main St. Dartmouth, NS			
Pay Rate: \$500.00/wk Annual: \$26 000.00			

Hours and Earnings		
	Current	
Description	Rate	Gross Earnings
Regular	\$500.00/wk	\$500.00

Taxes	
Description	Current
Federal	\$37.15
Provincial	\$27.20
CPP	\$21.42
EI	\$8.90
Total	\$94.67

Mental Math and Estimation

You know that all your deductions add up to approximately 38% of your gross pay and you earn \$950.00 a week. Estimate what your net pay will be.

Example 4

Some benefit deductions are not taxable. For example, union dues and pension contributions are not **taxable income**.

a) In the pay statement shown on p. 79, what is the person's taxable income?

b) How much income tax will he or she pay?

c) Using the CPP and EI amounts from Examples 1 and 2 and the income tax amount in this example, find the net pay. Assume the TD1 claim code is 1, the province is PEI, and the tax tables were from January 2011.

Employee Name:				
Company:	Pay Begin Date: 08/17/2011			Net Pay: \$413.88
	Pay End Date: 08/23/2011			Cheque Date: 08/23/2011
General			Taxes Data	
Employee ID:		Job Title:		Description
Address:		Pay Rate: \$500.00/wk Annual: \$26 000.00		Federal
				Claim Code
				1
Hours and Earnings			Before-Tax Deductions	
Current			Description	Amt.
Description	Rate	Gross Earnings	Union Dues	\$1.38
Regular	\$500.00/wk	\$500.00	Pension	\$43.00
			Total	?
			Taxes	
			Description	Current
			Federal	?
			Provincial	?
			CPP	?
			EI	?
			Total	?
Paycheque Summary				
Gross Earnings	Taxable Gross	Total Taxes, CPP, and EI	Total Deductions	Net Pay
\$500.00	?	?	?	?

SOLUTION

- a) $\$500.00 - \$1.38 - \$43.00 = \455.62 Subtract the benefit deductions from the gross income.

The taxable income is \$455.62.

- b) Look up the taxable income in the federal and provincial tax tables (remember to use the PEI tax tables for this example).

The federal tax is \$31.00.

The provincial tax is \$27.55.

- c) Subtract the CPP, EI, and income tax from the taxable income to find the net pay.

$$\$455.62 - \$21.42 - \$8.90 - \$31.00 - \$27.55 = \$366.75$$

The net pay is \$366.75.

Classwork/Homework

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BUILD YOUR SKILLS

1. What is the difference between taxable income and gross income?

② amount left after unions, private pension deductions
 ① amount before deductions/taxes

$$650 - 34.60$$

$$= 615.40$$

③ Net pay
 → amount after taxes

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2. Two friends work similar jobs at two different companies. One gets paid \$1458.00 twice a month and the other one gets paid \$1346.00 biweekly.

- a) Which person has a higher annual salary?

2 weeks

$$1458 \times 24 \text{ pays} = \$34992$$

$$1346 \times 26 \text{ pays} = \$34996 *$$

- b) In what ways would their payroll deductions differ?

3. Lianne works at New Brunswick's Woodstock First Nation Health Centre. She is paid \$750.00 biweekly for her part-time job. Explain how you can determine what her EI premium will be.

$$750 \times 0.0173 \\ = \$12.98$$

* Pg. 82 Ex #2
EI → 1.73%
of the
taxable
income.
2011
= 0.0173

4. Helen is paid \$3170.06 semi-monthly. She pays deductions of \$17.12 for union dues and \$126.40 for the company pension plan.

a) What is her taxable income?

$$3170.06 - 17.12 - 126.40 \\ = \$3042.54$$

gross
income

- taxes

Net
pay

- b) Explain which is higher, her taxable income or her net pay.

5. Amber earns \$960.00 biweekly. Each pay period, her employer deducts \$69.50 for federal tax, \$21.91 for provincial tax, and 1.73% for EI premiums. The CPP contribution rate is 4.95%, and the CPP annual exemption is \$3500.00 What is Amber's net pay?

$\$960$ - every 2 weeks
 69.50 - Fed tax
 21.91 - Prov tax
 1.73% EI
 CPP 4.95% over 3500* $\div 26 = \$134.61$ per year
 $960 \times 0.0173 = \$16.61$ EI
 $960 - 134.61 = 825.39 \times 0.0495 = \40.86 CPP
 $960 - 69.50 - 21.91 - 16.61 - 40.86 = \811.12 Net Pay

6. Ruaridgh is a boat salesperson. He works part-time at a marina in Foxtrap, NL, where he earns \$2500.00 a month, paid monthly. He has a second part-time job at another marina nearby on the Manuels River, where he earns \$2500.00 a month, paid semi-monthly. His TD1 claim code is 1. (See Hint on p. 82.)

a) What will Ruaridgh's monthly CPP deduction be for each job?

b) What will his monthly EI premiums be?

c) How much income tax will be deducted monthly from Ruaridgh's earnings from both his jobs?

d) What is his net pay each month?

7. Pierre earns \$3461.54 a month, paid semi-monthly. Each pay period, his employer deducts \$172.98 federal tax, \$69.82 provincial tax, \$78.45 for CPP, and 1.73% for EI premiums. Pierre drives his car to work, so he purchased an annual staff parking permit for \$750.00. He pays for the permit by monthly payroll deductions, which are made at the end of each month.

a) On the 15th of last month, Pierre's take-home pay was \$1379.58. Was he paid the correct amount? Explain how you know.

b) On the 31st of last month, Pierre's take-home pay was \$1254.58. Was he paid the correct amount? Explain how you know.